RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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LETTER 1023 **August 9, 1989**

THE PICTURE: On July 26 we received significant new information via Wall Street and the stock market. On July 26 the D-J Transportation Average, the NYSE Composite, the S&P 500, and the Amex Average all advanced to all-time highs -- above their 1987 bull market highs. On August 3 the NASDAQ joined the parade, closing at a new record high.

BULL MARKET? This action is obviously a major plus for the bull case. At the least, it hints that a primary bull trend may be in force and that the bull trend has been in place all along, despite the 1987 market crash.

The averages listed above (with the exception of the Transports) are all very broad averages. And it's no small thing when they all move to new all-time highs together. This is not the sort of action one would expect during a primary bear market. Thus, I feel the action of the market on July 26 tips the scales toward the thesis that a primary bull market is in force and has been in force ever since the extreme lows of December 1974.

OR STILL A BEAR MARKET? Question: What about the most widely-followed of all the averages, the Dow? What do we make of the Dow still failing to better its August 1987 high of 2722.42?

Answer: The Dow Theory uses only two Averages for classification of the primary trend. The two Averages are the D-J Industrial Average and the D-J Transportation Average. The Dow alone of all the averages and indices has a history in actual time going back to the turn of the century. So from the standpoint of the venerable Dow Theory, the classification of the primary trend is still open to question.

I've been a student of the markets ever since 1945, and I must admit that I've never had to deal with a situation comparable to the current one. Although many of the major averages have now advanced to record, all-time highs, the Dow has, so far, stubbornly refused to confirm.

In the past I've observed that if one of the broad, major composite averages penetrates a preceding level, it's only a matter of time before the rest of the averages follow. This reasoning has worked in most instances. Of course, by the time you receive this Letter, the Dow could have suddenly rocketed above the 2722.42 high (and with program trading this could conceivably occur on any day or at any hour). But as of this writing, we continue to deal with a major non-confirmation on the part of the D-J Industrial Average.

Question: What about the crash of October 1987? Didn't that mean anything as far as the major trend of the market is concerned? And what about the Dow Theory bear signal which occurred just prior to the crash?

Answer: Back in the period between June and August 1987 I pointed out repeatedly that the market was exhibiting all the characteristics of a classic, picture-perfect bull market top. During that period we witnessed wild excitement, myriad rumors, big volume, broad public participation, minuscule stock yields, breadth and price non-confirmations, and extreme over-valuation. Then in October 1987 we received a classic Dow Theory bear market signal, which was followed by the worst crash (in Dow points) in stock market history.

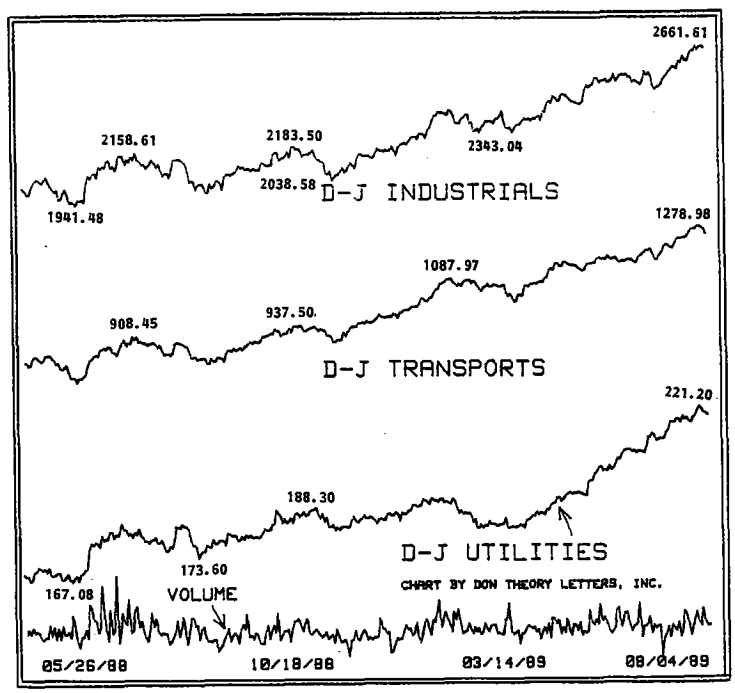
All of this convinced me that the primary trend of the market had turned bearish. However, I said at the time that "the surest action in the market" was the automatic 50% recovery following a crash. Of course, since then we have seen (with the exception of the Dow and many individual stocks) an almost 100% recovery of the ground lost during the crash.

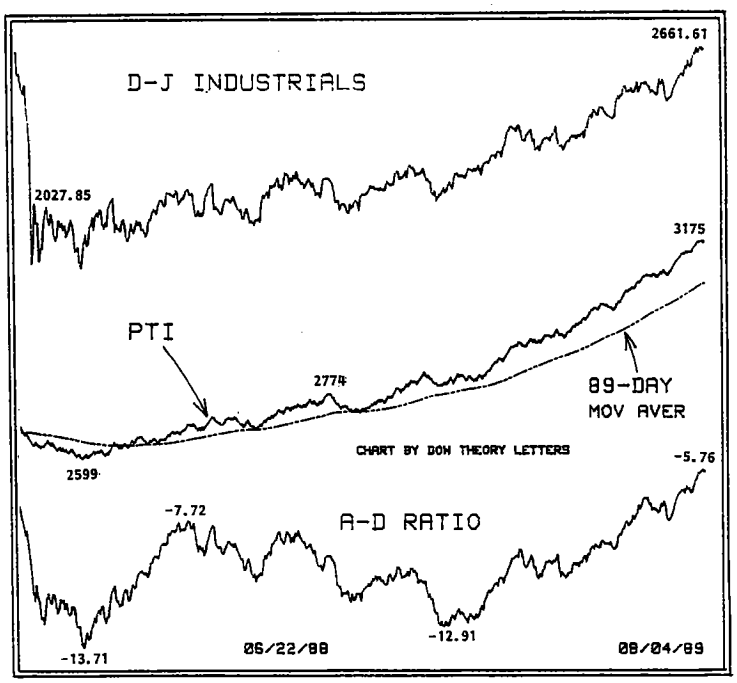
Question: Why do you think the Dow hasn't confirmed the Transports and the other averages?

Answer: There have been complaints and criticisms to the effect that the Dow is overly representative of the cyclical and heavy manufacturing areas and under-representative of the service areas. And this may well be true. But others argue that this has been a market led by the big stocks and the blue-chips, and those are the kinds of stocks that make up the Dow. So on that basis the Dow "should have" already moved to new highs. Therefore, it is highly significant the Dow still has refused to confirm the other averages.

In market analysis, I have found it good practice to avoid excuses for the action or inaction of an average. It is generally better to take market action at face value. Therefore, I will say the following: (1) It is highly impressive that so many major averages have now rallied to record highs. (2) It is, nevertheless, a source of concern that the Dow has failed to confirm what many of the other market indicators are saying (see **Investment Position** for more on this). Frankly, this is one of the more puzzling situations I have faced in all my 30 years of writing these Letters.

Question: All right, Russell, but what about your PTI?





Answer: The PTI turned bullish in January 1988 and has remained in a bullish trend ever since. Subscribers who followed the PTI to the exclusion of all other opinions and data have obviously done extremely well. I have often admitted (sheepishly, I might add) that the PTI is a lot smarter than I am. I guess this would be a good time to repeat that statement.

THE DOLLAR: From here on the direction of the US dollar may be the single most important element in the whole market and economic equation. Why do I make that statement? Here's the reason: If the dollar remains relatively strong, there is at least a good chance that foreign creditors of the US will continue to buy and hold Treasury securities. On the other hand, if the dollar turns persistently weak, the US is going to experience trouble.

The Group of Seven has made monumental efforts to stabilize the dollar and hold it within a specified band in relation to other major currencies. The dollar is the world's reserve currency, and almost every major nation holds dollars in their central bank as reserves (every nation's reserves consist of gold and foreign currencies, usually dollars).

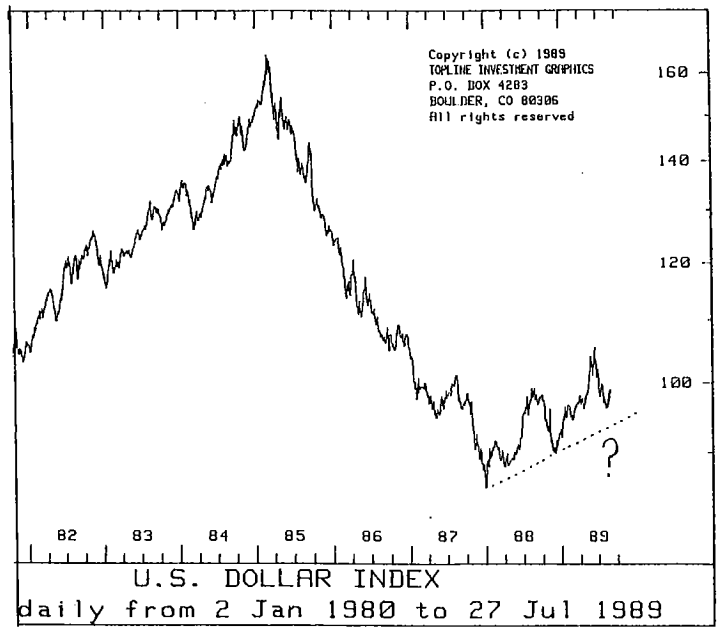
Furthermore, a large portion of the US's deficits are financed by foreign nations, which consistently buy our debt when it is issued (often from 20% to 40% of new Treasury issues are purchased by foreigners). If the dollar slides, foreign creditors of the US face massive losses. These creditors sustained tens of billions of dollars of losses during the early to mid-1980s, and it is doubtful whether they would be willing to face such losses again. No, in the event of another sustained dollar slide I would expect to see foreigners halt their buying of Treasury debt. In the event of a persistent dollar slide, we could even see net selling of US Treasury debt. Thus, the trend of the dollar is crucial at this time.

One of the attractions of the dollar is the relatively high return it provides. The return on Treasury bonds, for instance, is just below 8%. Thus the necessity for attractive bond yields places a definite restraint on the Fed's (and the administration's) desire to lower interest rates. Even so, my opinion is the US would willingly sacrifice the dollar in the interest of sustaining national prosperity. (Translation: if this nation goes into recession, the US would almost surely stand by and watch the dollar slide, rather than keep interest rates high.)

Forbes columnist Ashby Bladen addresses the dollar situation in the latest (Aug. 7) issue of *Forbes*. Writes Bladen, "So, the Fed has been nudging interest rates down in an effort to stave off a recession. Keeping our long, debt-fueled boom going by making credit even more readily available than it has been the last seven years will turn out to be much like keeping a long booze-fueled binge going with progressively larger jolts of alcohol . . . American consumers are having sober second thoughts about the size of their debts, and the prospects of a return to financial sobriety is scaring the Fed into pouring another round of Olde Easy Credit to avoid the R word. But the worst risk we face is that another bout with inflation will destroy the habit of personal savings here and create the same total reliance on hyperinflationary government borrowing that it has produced already in Latin America."

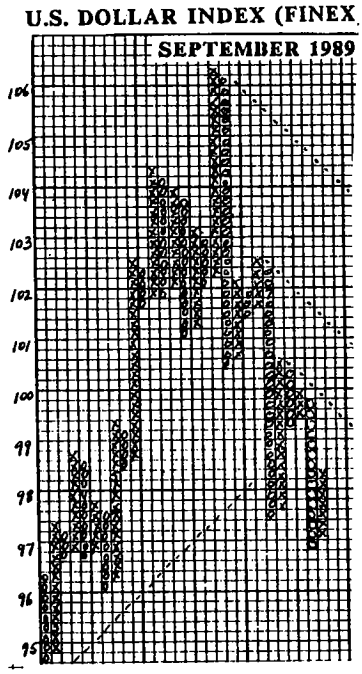
In the meantime, our federal debt is rising at the rate of about $250 billion a year, and our trade deficit continues at the rate of about $100 billion a year. These deficits are bad enough, but if a recession hits, there will be a severe drop-off in tax receipts to the federal government. This could easily result in the federal deficit surging to $400 or $500 billion or more. You can imagine what would happen to the dollar (and bonds) if this occurs.

The consensus opinion is that the dollar has made an important base and is now in a major bull trend. I must admit that I'm now skeptical of that view. I include two charts of the dollar. The first is long term, going back to 1981. Here we see the explosive rise of the dollar with a high in 1985. From there we see a collapse down to the late-1987 low. Next comes the bounce off the lows (1988 and '89), a bounce which gave rise to the almost universal opinion that "the dollar is now in a long-term bull market." As I said before, I'm not so sure.



Now turn to the point & figure chart of the dollar index on page 3. This is a near-term chart, but P&F charts do provide specific bull and bear signals. The intermediate trend of the dollar index is now down. To turn bullish the September contract would have to rally to 100.80. On the other hand, the recent drop to 96.90 reconfirmed dollar weakness. A further important reconfirmation of dollar weakness would be a drop in the September dollar contract to 96.00 or below.

So despite the consensus opinion that the dollar has turned bullish, the chart is now intermediate-term bearish. The dollar, to my mind, is the **KEY** to what happens in the stock market and the economy over the coming months. Don't forget -- if the dollar turns weak (or weaker) the Fed can manipulate it to strength (1) by massive purchases of dollars (which may provide a temporary lift) or (2) by raising interest rates, which makes dollar holdings more attractive. (Chart courtesy of *Topline Investment Graphics*, P&F chart courtesy of *Chartcraft*.)



INVESTMENT POSITION: As older readers know, since the crash I just haven't been enamored of this market. My problem is that I'm too value-oriented, but like it or not, values play an important part in my thinking. So despite the fine performance of my PTI, I have recommended bonds rather than stocks during 1987-89. Bonds, in my opinion, represented the better value of the two. And happily, they certainly have provided us with large profits.

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I want to repeat again an item I mentioned in the last Letter. The percentage of blue-chip stocks that are undervalued has dropped to a low 15% (calculations by *IQ Trends* of La Jolla). Bull markets of the past have topped out when the percentage of undervalued blue-chips has dropped to 17% or below. So at 15% it is well to remember that this market is traveling on thin ice.

The bond market continues to do well and is hovering near its highs. The only fly in the ointment here is the almost universal opinion that rates must inevitably decline. I guess all universal opinions (where markets are concerned) bother me. Watch the dollar. The trend of the dollar could be the key to the trend of bonds.

With the new record highs in the NYSE Composite, the S&P 500 and the NASDAQ, I have pulled the bear out of this box and replaced him with a question mark. If the Dow closes above 2722.42, I will place a bull in the box. My PTI continues to probe new high ground. The rise in the PTI has been relentless, there's no other way to put it.

THE HATED MARKET: If this is indeed a bull market, I would guess that it is the most hated bull market in all history (I mean, hated by the public). No doubt in my mind -- the public hates this market, and it distrusts this market. According to Wall Street lore, public loathing towards the market represents a big plus for the bulls (climbing the "Wall of Worry" thesis), but I want to explore another avenue now.

In the July 30 Sunday *New York Times* there appeared a lead-off article entitled, "Is Anybody Watching? H.U.D., Wright, Meese -- to the Public It's All The Same Network." The article continues, "Out in the country there is a pervasive sense that something has gone badly awry here. Politicians and pollsters are finding that the public mood toward Washington is about as sour as it has ever been. But they are finding, too that it is an undifferentiated mistrust. James Watt, Iran-contra, Meese, Ollie North, Tony Coelho. The scandals all blur together."

My own feeling is that deep in its collective heart, the American public believes that this bull market has been built on debt, deficits, political budgetary lies, hostile takeovers, leverage, junk bonds and official bunkum. In a recent address to the National Press Club, Budget Director Darman noted that we are "robbing the future to give to the present" in an orgy of what he called "cultural now–now-ism."

The public knows all that. It senses it and reads about it, and it believes it. The public knows that the federal debt (despite all the denials) is going up at the rate of a quarter trillion dollars a year. The public knows that high inflation continues (despite official denials). The public knows that the value of the US dollar has been declining year after year, decade after decade. The public sees the continuing inflation in rents, movie theater and restaurant prices, sports ticket prices, clothes, cars, all the things that make up real life.

The public reads about the leveraging of America and the inroads of foreigners as those foreigners take over US corporations. The public notes that whole industries such as VCRs, TV, shoes, cars, and now digital tapes are being taken over by foreign companies. The public sees the leveraging of American corporations with an accompanying rise of $200 billion in junk bond debt.

But perhaps the major fear in the public's mind is the memory of the 1987 crash. The public was and still is traumatized by the crash. Result: the public avoids stocks and pours into bonds. If you remember, seven or eight years ago you couldn't give away bonds. The public saw decades of bearish bond market action, and it saw years of losses in bonds. So bonds were anathema. They were tantamount to financial death. But during the last few years as bonds continued to climb, the public came back to bonds, first gingerly, then more enthusiastically, and more recently with almost panicky abandon. Finally, the full circle -- today the public is swallowing "high-yield" (junk) bond funds as fast as they can be formed and distributed. In short, today the public trusts bonds, not stocks. Bonds, in the mind of the public, mean "safe income." Stocks mean "maybe another crash."

A bull market, in the mind of the average American, "should" mean increasing profits, better times, and a rising standard of living. But try this: ask the average American whether his standard of living is improving. Ask him whether conditions in his town or city are improving. Ask him whether his faith in government, local or national, is increasing.

You already know the answers you'll receive. Which is why, in my opinion, this is the most hated stock market rise since the Great Depression of the 1930s.

Finally, I believe that program trading is a major factor in "turning the public off" on the market. When the Dow trades for hours up a few points, then suddenly dives 20 points, and finally (in the last half hour) spurts to close up 15 points, the average investor shakes his head and mumbles, "This market is completely controlled by big money speculators. The little guy doesn't know what's going on." On top of that the perception is that LBOs and takeovers have been a prime manipulatory force behind the market. The public feels (rightly or wrongly) that large interests are rigging the market. The public feels like a lamb in a den of wolves.

The American public, with better access to news and information than at any time in US history, has grown both sophisticated and cynical. It sees the boom on Wall Street. It sees it and notes it. And it doesn't trust it. But should the public trust bonds? Or will the public ultimately be buried in the bonds they have now grown so fond of?

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My old friend, Ken Gerbino (*Gerbino Investment Letter*, 9016 Wilshire Blvd, Beverly Hills, CA 90211) makes a very interesting

observation in his latest report. Ken notes this is a two-tiered economy. On one tier we have the guy who owns his own house, perhaps some real estate, some stocks, bonds, and some gold. He is positioned to keep up with inflation.

The other tier is the lower or middle class wage-earner, and this group includes about 85% of the US population. These people are usually in debt, and their living expenses continue to rise. Thus, they must pay the interest on their debt, and they must also pay higher prices for the items they need. Consequently, their living standard is continually going down.

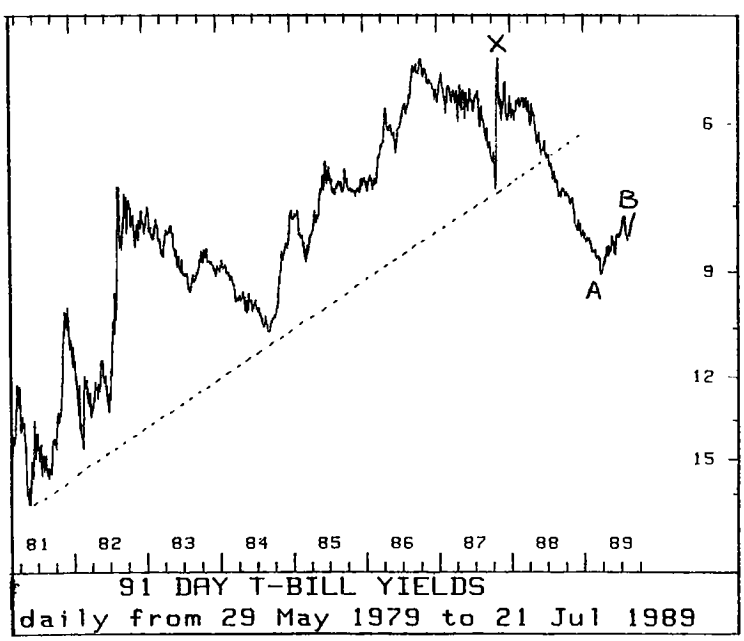
Ken notes that the US money supply has increased 55% in the last six years while the world money supply has doubled in the last seven years. This, he believes, will ultimately bring on higher inflation.

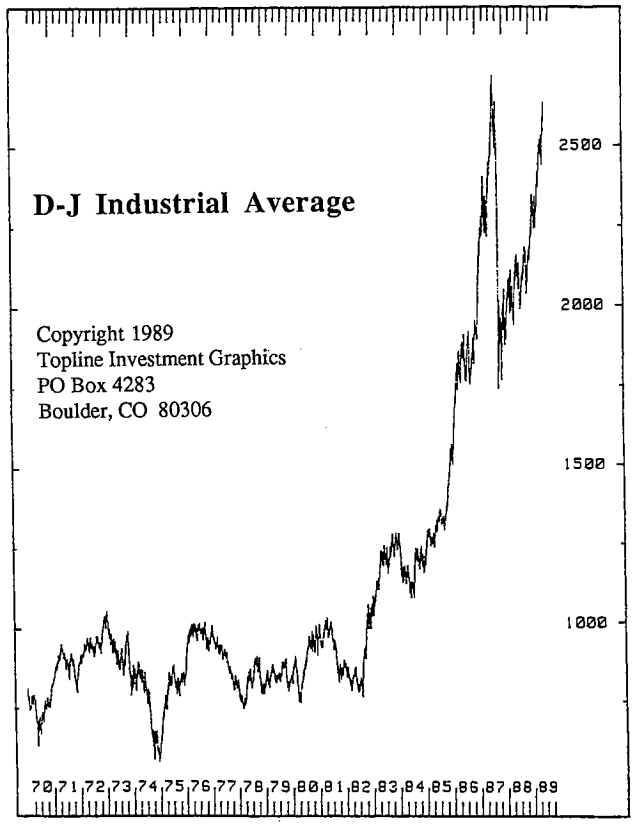
Ken's conclusion is that "the depression that people are talking about is not going to be a financial wipe-out such as we had in the 1930s. It's going to be a depression of purchasing power of the man in the street." We will see a "lowering of the wage earner's ability to keep up, to own a house, to send his kids to college and to buy a new car every three or four years as normal middle class people were able to do in the '50s and '60s."

Russell Comment: Ken's observations particularly interest me, because it is close to my own view. However, I see the picture slightly differently. I see it as the increasing division between that segment of the American public which is in debt and paying out interest, and the segment which has assets and is collecting interest (or dividends).

I wrote years ago (and have repeated it over and over again) that the operative word for the late-1980s and 1990s is going to be **INCOME**. We will need income in order to maintain our standard of living. And this is the reason I recommended bonds at a time when rates for bonds were so high and attractive.

Subscribers who bought bonds now have fat profits or an attractive income or both. Yes, I agree with Ken -- the average American is going to find the going more and more difficult, and the word DEBT is going to end up as the dirtiest word in the US vocabulary. We do indeed live in a two tier system both on a national and an individual level, and the difference is easily defined -- either you are a creditor or a debtor.





CHARTS: Last week a reporter from the *Wall Street Journal* called me, and we had a long conversation which touched on everything from Dow Theory to early editors of the Journal. At one point the subject turned to charts. "What use are charts?" the reporter asked, "what do you really get out of charts?"

I answered that for one thing charts define trends. And the stock market, rather than flopping willy nilly up and down, does tend to move in trends. Once a trend is in force, I continued, that trend will dominate the price movement. "For how long?" asked the reporter. "A trend will remain in force until that trend is reversed," I answered. "That sounds a bit silly, but it is nevertheless a very useful concept."

Actually, the whole point of chart reading is to try to identify turning points in trends. Or as the old market veteran put it, "Don't tell me what stock to buy, just tell me when to buy it." Which, of course, is the essence of making money in the stock market. Glance though any chart book. All stocks go up, and all stocks go down. From a technician's standpoint, he couldn't care less what stock he's buying. What he wants to know is which stock is ready to go up, and at what point does he buy that stock.

So speaking of charts, here are a few charts that I asked my Colorado friend (and computer expert), John Carder, to run off for me (via Fax). These charts are well worth studying. The first chart provides a long-term view of the 91-day T-bill yields. It's a fascinating view that is NOT often seen or understood.

From the sky-high rates of 1981, the bill rate declined through the '80s to a low of around 5.5% in 1987 (X on chart). Then in 1988 the entire seven-year downtrend in yields was violated. A peak in the bill rate was touched in early 1989 at just over 9% (A).

But here's the interesting point. The move to lower rates this year appears as just an upward blip (A to B) on the chart. To put it another way, the 1989 drop in the bill rate (so far) does not look particularly powerful. In fact, from the look of the chart one would almost expect the yields to turn around and continue on the path to higher rates again.

Occasionally a chart will give you a different "feel" or perspective on the market. I think this chart of the Dow (arithmetic scale, going back to 1970) does just that. On this chart the Dow rise from 1982

to the 1987 peak appears like an explosion, a rocket rise into space. Then comes the crash to the 1987 low. The crash would seem to confirm the old market truth which states that the more violent the rise, the more violent the correction (or the physical law that states that "every action has an equal an opposite reaction").

Then we come to the spike-rise of 1987 to 1989. And as you study this chart you have to wonder, where will this baby end, and how will it end? Obviously, no one knows, but the price structure itself is enough to give market veterans a case of white knuckles. All in all, one comes to the conclusion that this market is a mystery-thriller.

NOTES & QUOTES: By the year 2000 the population of California could be over 50% Latino. NYC is also turning super-multi-ethnic. In fact, more so than at any time since the turn of the century, NYC is becoming a city of immigrants. The City has an annual influx of 90,000 or more legal immigrants and an additional 40,000 or so undocumented aliens. Experts say that within a decade the proportion of foreign-born New Yorkers might pass the historic high of 40%.

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Of interest -- Tijuana, just 25 miles south of here, now has a population of 1.5 million, thus passing San Diego. The August issue of *National Geographic* has a cover story on the San Diego/Tijuana connection. San Diego, by the way, is now the sixth most-populated city in the nation. When I moved here from NYC in 1961 my friends would ask, "San Diego? Is that north or south of LA?" Now everyone knows, to the tune of 40,000 moving into San Diego County every year.

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Has California housing finally priced itself out of the market? June sales of single family homes in California dropped 13.9% from June a year ago. West Texas, Arizona, and Colorado have experienced severe weakness in home prices, but so far California has remained unscathed (home prices in San Diego are up 20% over last year). But based on average income and the price of homes, San Diego is now deemed the "least affordable" housing market in the nation.

In the meantime, the LA Times (July 25) carries a front page article about the "Californication" of the northwestern states. Thousands of Los Angelenos, sick of the smog, the clogged highways, and the wild home prices, are moving north to Oregon and Washington. On a more personal note, a couple I know just bought a four bedroom home in the beautiful town of Bend, Oregon, for $150,000 (it's situated on a 1.25 acre plot). In LA the price would be $500,000 and you'd get a fifth of an acre.

I just received a letter from a San Francisco subscriber who has his own real estate company. He writes, "You commented in your last Letter that real estate values were too high because of negative cash flow (rents too low relative to sales price). My business partner and I both feel that the relationship is way out of whack also. However, we feel that the prices are correct and the rents are too low. This relationship is similar to 1976-77 when rents were $150 for apartments in San Francisco and the peninsula and houses went from $50,000 to $150,000. But rents then followed housing by climbing to $500. Right now rents are again a bargain. You are always promoting the concept of 'values'. You can rent homes all over California for a ridiculously low price of $500 to $700 a month ($1,200 to $1,900 in LA and SF type areas). These rates are a bargain compared with the price of cars, food, clothes, art, etc. Rents need to double to catch up to them." Well, those are the thoughts of two California real estate men.

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Who was the champion giver in "honoraria" to our members of Congress? Why it was the tobacco industry. Top giver was the Tobacco Institute to the tune of $123,000 to 85 House members and eight Senators (for speeches, you know). Then RJR Nabisco gave $69,500 and Philip Morris gave $41,000 and the Smokeless Tobacco Council gave $27,500 for a grand tobacco total of $261,000. Walter Merryman, a Tobacco Institute VP, declined to say why the Institute had such an ambitious paid speaker program.

To my mind, what's happening in Congress is a national disgrace. If I had my way, we'd give these guys two terms and no more, and I'd double or even triple their salaries -- but I'd allow them NO outside money -- NONE. Triple their salaries? That's right, triple salaries would be a bargain if we could have clean, honest, law-makers. Hell, one B-2 bomber costs $530 million. Do you realize that's ten times what the whole House and Senate make!

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Which reminds me, the last issue of *Fortune* magazine shows how the US military budget (which is now $300 billion) could be reduced by one-third or $100 billion. You know something -- I don't doubt it for a second!

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Mikhail Gorbachev is having his troubles trying to bring Russia into the 20th century. Up to now the Communist party has ruled everything in Russia, from top to bottom. But that is changing rapidly, and the change is bringing fear and loathing to many in the party. The crisis has been brought on by the collapse in party authority. The party has been dispossessed of the departments that administer policy in industry and construction. Then the party lost heavily (to its great embarrassment) in the general elections. Next, the party was horrified as the new parliament gained power and moved to play an important role in the government. Most recently, Gorby allowed a massive strike in Siberia's Kuzbass. When party members complained about their waning power, Gorby told them that the party cannot decree power to itself, it has to win power by being in the forefront of political, economic, and social change. That was enough to send party members into a slump.

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US auto sales are down 6% over the last six months (with Chrysler doing by far the worst). Japanese sales of cars in the US, however, are up 18% for the same period. After five years of torrid car sales, it looks as if the auto cycle is finally turning down. But lo and behold, US auto makers are announcing a 5-7% increase in car prices next year to cover air bag costs and a few other extras. A rather untimely price increase, it would seem.

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Shortly, we will see the introduction of the digital tape recorder. This could be the next multi-million dollar consumer electronic item to hit US stores. But all the profits will be measured in yen. Manufacturers of the digital recorders are all Japanese.

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Is American society breaking down? According to *US News & World Report* (July 31) in a typical year there are 8.1 million serious crimes committed in the US (such as murder, assault, burglary), but only 724,000 arrests. Only 193,000 of those arrested are convicted, only 149,000 go to prison, and of the prison-bound population 36,000 serve less than a year. And oh yes, fewer than half the crimes committed are reported to authorities. (Note: When I was mugged on the streets of San Francisco last year I didn't report it. What was the point? My wallet was gone, it was dark so I couldn't have described my assailants, and the police probably wouldn't have been that interested even if I could describe them.)

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More and more, sports are going round-the-seasons and international. Believe it or not, a new major baseball league is in the process of formation. The World League of American football will begin with 12 teams in 1990 or '91. The new arena football league is rolling. The world soccer league is scheduling playoffs in the USA. And *The National*, a new daily sports newspaper will begin publishing in the fall.

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Here's something you may be wondering about. My friend Mark Skousen (*Forecasts & Strategies*, (301) 424-3700) writes that it's impossible for an American to avoid taxes via offshore bank accounts or secret foreign trusts. "Congress has closed all the loopholes and foreign bank accounts are reportable on your tax return if their value exceeds $10,000. All interest is reportable and taxable, even inside an 'anonymous' trust." Of course, you can move to a tax haven, renounce your US citizenship, and avoid taxes that way, but most Americans don't want to take such a drastic step. Mark also notes that living expenses in the tax havens tend to run about 50% above US living expenses. You want to save taxes? Mark suggests moving out (gulp) of high-tax, high cost-of-living California and moving to Texas or Florida, where

there are no state income taxes. I'd do it, Mark, except that I love the ocean and the climate here. But you're right -- the taxes in California (and NY) are MURDER.

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Money: The Times/Warner merger is triggering all-at-once executive payouts that would have taken years. Result: 500 Warner execs will get $677 million with Chairman Steve Ross getting $193 million. . . . Taiwan's huge China Trust Company has offered Mike Tyson $18 million to fight 40-year-old George Foreman (he'll probably take it). . . . Each day that goes by adds $20 million to the cost of the S&L bailout. . . . Jack Nicholson opted to take a percentage of the receipts rather than a salary for *Batman*. The word is that he could make $60 million on the film, which has now grossed over $200 million. Naturally, *Batman II* and *III* are already on the drawing boards.

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Money World in its latest issue talks about "Five Men Who Made the '80's America's Greediest Decade." The five listed are Carl Icahn, Donald Trump, Henry Kravis, Michael Milken, and Frank Lorenzo. All five made multi-millions (or billions) using massive leverage and largely other people's money. Whether they made America a better place or America's economy stronger remains to be seen (you know what I think). One thing is sure -- the five pushed the debts of many of America's corporations through the ceiling.

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Inflation? Selected movie theaters in LA have boosted their admission prices to $7, up from the recent top of $6.50. But wait a minute. Cineplex Odeon in NYC is converting its former Fillmore East theater. The story is that it will take weekend reservations for movies at $10 a ticket. Russell comment: I've been to two movie theaters in the last year. I just stick to VCRs and my widescreen projection TV. If I pay $2 for a rented movie, I don't feel guilty if it's rotten and I turn it off. So what if I see today's movies six months later. I'm in no hurry.

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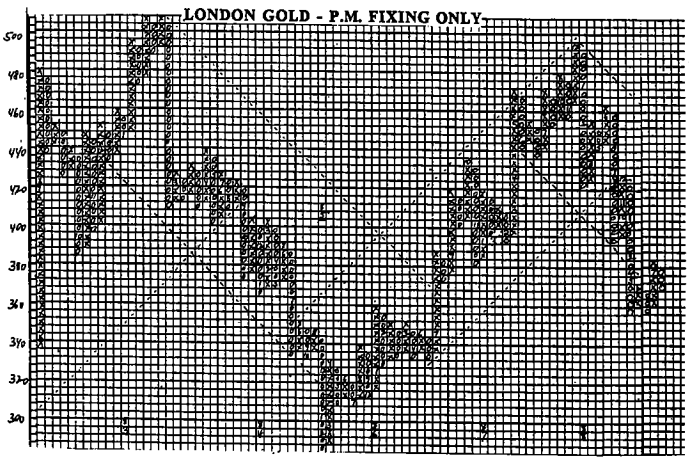
Connoiseur magazine (August) polled the esteemed international gastronic club, Confrerie de la Chaine des Rotissseurs, for the ten best resaurants in the world. Voted best was L'Auberge de l'Ill in Illhaeusern, France; second the Grill Room, Connaught Hotel, London; third Girardet, Crissier, Switzerland, fouth Inverlochy Castle Restaurant, Ft. Williams, Scotland; fifth Jamin, Paris -- and so forth. Only one American restaurant made the top-ten list, Le Cirque in NYC. Of the top ten, four were French and one, Le Louis XV, was in Monaco. Are the French really that good? My answer is yes. Speaking of the French, Faye and I just had dinner at the new Meridien Hotel on Coronado Island (just over the bridge from San Diego). The Meridien boasts a new French chef, and he's a marvel. The dinner there was as good as anything we've ever had anywhere including Lutece and Le Cirque in NYC. If you live in San Diego or are visiting, don't miss a stay at this gorgeous hotel (owned and run by Air France) and above all don't miss their price-fixed ($55) dinner. It is superb.

GOLD: Gold serves a number of purposes besides the well-known one of filling our teeth. During times of inflation gold acts as a hedge, which means that it requires more and more paper currencies to purchase it. During a true deflation gold acts as an anchor since gold is the only money with no liabilities or debts against it. In other words, unlike paper money, gold can't go bankrupt or be reneged on.

Although going nowhere for months on end, gold does seem to have important support in the 360-365 area. Or we could say that gold is locked into the 360-380 trading zone. Of interest is that some of the gold shares have been acting well, recently, with new highs for the years in ASA, Placer Dome and Battle Mountain.

On Friday, August 5, the XAU gold/silver index jumped to 10.01, its highest level in six months, and this in the face of a 6 point drop in gold. No question about it, the gold shares are now acting much better than gold bullion. I don't know the reason for this, but gold share prices often lead the price of the metal.



The point & figure chart of gold (PM fix) is clear enough regarding important points for the yellow metal. We already received a first bullish signal when gold touched the 376 box. Gold then rallied to 384, and sold off. For a second bullish signal gold would have to climb to 388. If that happened, I would say that the gold base was about completed. On the other hand, a gold decline to 356 would violate the whole basing structure and be a strong bearish signal. I don't think that's going to happen. That's the gold story in a nutsell (chart courtesy of Chartcraft in New Rochelle, NY).

LATE NOTES: Neither Fed Chairman Greenspan nor anyone else seems to know where this economy is going. If we judge by the NYSE Composite and the S&P 500, all is well, and if there is any trouble at all, it will be even milder and softer than the widely-predicted "soft landing." But if one goes by the action of the Dow, there would seem to be something amiss in an otherwise happy picture.

From a techical standpoint, the stock market is overbought. Despite that, the market has a very hard time going down. On many occasions we will see the market open with the Dow off 10 or 15 points, but then it spend the rest of the day coming back. In other words, rain or shine, cloudy or sunny, people keep buying the heck out of this market.

The same thing seems to be happening to my PTI. I don't think I've ever seen a more stubborn or relentless advance in this indicator, which continues to make high upon high. Bulls are talking about a "melt-up," and they point to $330 billion on the sidelines in money market funds plus a still huge total of shorts. When the Dow goes over 2722.42, they warn, the market will rocket to higher levels.

Bears point out that the D-J Transportation Average surged to a record high on April 18, almost four months ago -- and the Dow still refuses to confirm. This is a dangerous non-confirmation, claim the bears, and the longer the non–confirmation is in force, the more ominous the situation becomes.

As I see it, there's little sense in playing the guru-crystal baller here. If the Dow betters 2722.42, the bull argument starts to look impressive. If the Dow stubbornly refuses to better 2722.42, look for trouble.

Oh yes, there's one more school. This school states that Dow 2722.42 is nothing but a bull trap. When the Dow finally climbs over its 1987, warn this group, "everyone will turn wildly bullish, the Dow will pop up another 20 or 30 points -- and then the market will collapse.

Maybe these conflicting scenarios account for the current extraordinary popularity of the money market funds. The public, it seems, is saying "a plague on all your houses." The typical American investor is making money the safe, old-fashioned way -- by collecting interest.

NEXT MAILING: Wednesday, August 23